

REPORT OF EXAMINATION
of
NORTH WEST LIFE ASSURANCE COMPANY
OF CANADA

Vancouver, British Columbia, Canada

as of

December 31, 1997



States Participating

Washington

**NORTH WEST LIFE ASSURANCE COMPANY
OF CANADA**

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify that I have reviewed the attached Report of Examination of the financial condition and affairs of **North West Life Assurance Company of Canada** of Vancouver, British Columbia, Canada as of December 31, 1997.

JAMES T. ODIORNE, CPA, JD
Deputy Commissioner
Company Supervision
Acting Chief Examiner

Date__5/12/99

NORTH WEST LIFE ASSURANCE COMPANY OF CANADA

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**NORTH WEST LIFE ASSURANCE COMPANY
OF CANADA**

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Seattle, Washington
April 6, 1999

Honorable Deborah Senn
Insurance Commissioner
State of Washington
Insurance Building
PO Box 40255
Olympia, WA 98504

Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chairman, Financial Condition
NAIC Subcommittee (EX4)
PO Box 1157
Richmond, Virginia 23218

Dear Commissioner Senn and Commissioner Gross:

In accordance with your instructions and in compliance with the statutory requirements of RCW 48.03.010, an examination was made of the corporate affairs and financial records of:

NORTH WEST LIFE ASSURANCE COMPANY OF CANADA
of
Vancouver, British Columbia, Canada

hereinafter referred to as "NWC" or the "Company", at its home office located at 1900-1188 West Georgia Street, Vancouver, B. C., Canada. This report of examination is respectfully submitted showing the condition of the Company as of December 31, 1997.

SCOPE OF EXAMINATION

The examination was made of the United States business of the Company by the State of Washington which serves as the port of entry for the Company to transact insurance business in the United States. The examination covered a five-year period from January 1, 1993 through December 31, 1997 and comprises a comprehensive review of the books and records of the Company. The examination was conducted in accordance with the statutory requirements contained in the Washington Insurance Code and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The examination included identification and disposition of material transactions and events occurring subsequent to December 31, 1997 that were noted during the examination. Additionally, workpapers prepared by the Company's independent auditors were reviewed and utilized to the extent possible.

INSTRUCTIONS

(1) The Company is instructed to comply with RCW 48.05.250 and follow the NAIC guidelines in the preparation of its Annual Statement.

(2) In our review of Life Policy & Contract Claims, we noted that the Company paid interest of 5% on death benefits on all policies issued in the United States. The Company is instructed to comply with: (a) RCW 48.23.300 which requires an interest rate on policy proceeds of not less than 8% for policies issued in the State of Washington; and, (b), the interest rates as required of other states.

(3) The Company is instructed to comply with RCW 48.13.140(1) by obtaining appraisals on all properties for which it is the mortgagee. Purchase money mortgages shall be valued in an amount not exceeding the acquisition cost of the real property covered thereby or ninety percent of the fair value of such property, whichever is less. The Company is instructed to comply with RCW 48.12.200(1) when preparing valuation of purchase money mortgages.

COMMENTS AND RECOMMENDATIONS

(1) In our review of investments in Bonds, it was noted that the custodial agreement with Seattle First National Bank does not include the required provisions for indemnifying the Company for lost securities. It is recommended that the agreement be updated to reflect the change of custodian from Seattle First to BNY Western Trust and to include the provisions for indemnifying the Company for the loss of securities as required by the NAIC.

(2) It was also noted that some securities were not listed on the SVO master file and some have unmatched SVO/Company Designations. It is recommended that the Company submit these securities to be listed with the SVO and those listed without the NAIC Designation should be listed with letter "Z" appended to the designation.

(3) It was noted during our examination of Cash that there are several reconciling items in the cash reconciliations which date back to 1996. It is recommended that the Company make a concerted effort to eliminate the reconciling items in a timely manner.

(4) The ALIS system does not reflect the accurate balance of policy loans and the Company prepares manual adjustments for general ledger purposes. The manual adjustments do not reflect any policy loan activities occurring between anniversary dates. It is recommended that the Company implement a control system to detect changes between anniversary dates.

HISTORY AND CAPITALIZATION

History

The Company was incorporated by Act of Parliament of Canada on April 27, 1967, and commenced business in Canada on June 22, 1967. On November 15, 1971, the State of Washington issued a Certificate of Authority granting the Company the right to do business in the State of Washington and as a port of entry to transact insurance in the United States pursuant to RCW 48.35.010.

On July 8, 1982, the Company was purchased by Industrial Alliance Life Management Corporation, which is ultimately controlled by Industrial-Alliance Life Insurance Company of Quebec, Canada.

On May 1, 1985, the Company purchased the Life Insurance Company of the Northwest of Spokane, Washington and the name was subsequently change to North West Life Assurance Company of America (NWA). On May 19, 1988, the Company sold NWA to its parent, Industrial Alliance Life Management Corporation.

Capital Funds

The Company is an "alien" insurer as defined under RCW 48.05.010. As such, the capital stock and surplus of the Company are reflected in its 1997 Annual Return- OSFI 54, filed with Canadian authorities. The capital funds of an alien insurer shall be deemed to be the amount by which its assets, deposited and otherwise held within the United States, exceed its liabilities with respect to its business transacted in the United States. As of December 31, 1997, the Excess Assets over Liabilities and Special Surplus of the Company amounted to \$28,113,745. This is more than the capital and surplus requirements under RCW 48.05.340 for a domestic life and health insurance company.

MANAGEMENT AND CONTROL

Shareholders

The Company is 99.9 % owned by Industrial-Alliance Life Management Corporation of Quebec, Canada, the parent company. The ultimate parent company is Industrial-Alliance Life Insurance Company of Quebec, Canada.

Board of Directors:

The Articles of Incorporation vest the management and control of the affairs of the Company in a Board of Directors which consisted of nine (9) members as of December 31, 1997.

The following individuals serve the Company as Directors and Officers as of December 31, 1997:

Directors:

Name and Residence

Business Affiliation

Marcel Gagne
1160, rue Luc Lacoursiere
Sainte-Foy, Quebec G1X4V5

Vice President, Industrial-
Alliance Life Insurance Company

John B. Gill
6994 Yew Street
Vancouver, B.C. V6P 5W3

President & Chief Executive Officer
North West Life Assurance Company

Raymond Garneau
104-4700 Ste. Catherine West
Westmount, PQ H3Z 1S6

President & Chief Executive Officer
Industrial-Alliance Life Insurance Co.
Chairman of the Board, NWC/NWA

Bruce I. Howe
4715 West 2nd Ave.
Vancouver, B. C.

Executive in Residence
Faculty of Commerce
U. B. C.

Rom J. Markin
305 Janet Street
Pullman, WA 99163

Professor of Marketing
College of Business and Economics
Washington State University

Calvin Francis Murphy
6050 Athlone Street
Vancouver, B.C. V6M 3A4

Lawyer/Partner, Farris Vaughan
Wills & Murphy

Warren Van Genderen
65 Kirkland Ave., #305
Kirkland, WA 98033

Chairman/Director
NFC Financial

Henry A. Roy
3180 De Lavigne
Montreal, Quebec H3Y 2C4

Sr. Vice-President, Finance &
Administration and Chief Financial
Officer, Cambior Inc.

Normand Pepin
515 - 6 Jardines de Merici
Quebec, Quebec G1S 4N7

Vice-President & General Manager
Individual Insurance,
Industrial-Alliance

Officers:

Name

Position Held

Raymond Garneau
John B. Gill
Arthur W. Putz
Donald R. Francis
Ronald W. Pepper
Gordon Robinson
Tyronne Tutt
Zulfikar K. Mohamed
Kim Fitzpatrick
Douglas A. Carrothers

Chairman of the Board
President and Treasurer
Vice President & Corporate Secretary
Vice President & Actuary
Vice President, Marketing
Vice President, Finance
Vice President, Individual Insurance
Vice President, Actuarial & Data Processing
Assistant Vice President, Sales
Asst. Vice President & Legal Counsel

PARENTS, SUBSIDIARIES & AFFILIATES

Affiliated Companies

North West Life Assurance Company of Canada is 99.9 % owned by Industrial Alliance Life Management Corporation, a wholly owned subsidiary of Industrial Alliance Life Insurance Company of Quebec, Canada, the ultimate parent.

Organizational Chart

The organizational chart in the following page shows the companies affiliated with the group as of December 31, 1997.

ORGANIZATIONAL CHART
(Please refer to Hard Copy)

CORPORATE RECORDS

Minutes

Minutes of the Board of Directors and Shareholders meetings were reviewed for 1993 through 1997. There were no amendments to the Articles of Incorporation or ByLaws of the Company during the five year period under examination.

Conflict of Interest

The Company has an established procedure for dealing with Conflict of Interest on the part of its directors, officers and responsible employees. Each director, officer or responsible employee is required to complete a Conflict of Interest Form and any reported circumstance that may involve a conflict of interest is then reported to the Conduct Review Committee of the Board for review. There were no conflicts reported for the period covered by this examination.

Contracts

As of December 31, 1997, the Company was a party to the following contracts:

- (1) A Management Agreement with North West Life Assurance Company of America, an affiliated company, effective March 4, 1991.
- (2) An Agreement for Data Processing Services with Industrial-Alliance Administrative Services Inc., a subsidiary of the ultimate parent, Industrial Alliance Life Insurance Company of Quebec, Canada its parent.
- (3) A Portfolio Management Services Agreement with Industrial-Alliance Life Insurance Company, the ultimate parent, which provides for the administration of its securities by the parent company.
- (4) A Lease Agreement for the Head Office with 389288 B.C.LTD for a period of ten (10) years from November 1, 1997 to October 31, 2007.

INTERNAL SECURITY

Fidelity Bonds

North West Life Assurance Company of Canada is listed as an additional insured under a Financial Institution Bond issued to its ultimate parent company, Industrial-Alliance Life Insurance Company by The Guarantee Company of North America. The policy provides a limit of \$10,000,000 with a single loss deductible of \$100,000. The coverage exceeds the minimum amount of fidelity insurance recommended by the NAIC Examiners Handbook.

Other Insurance

The Company and other affiliates, through its parent company, Industrial-Alliance Life Insurance Company, are provided protection against property and liability loss. Coverages include commercial general liability, directors and officers liability and other hazards to which the Company is exposed. In addition, the Company has a Mortgage Impairment Policy which covers "any building located anywhere in Canada and in the United States in which NWC has an interest as mortgagee." The insurer will be liable for the unpaid mortgage amount at the time of the loss minus the value of the undamaged property. The Company appeared to be adequately protected.

Internal Controls

The firm of Deloitte & Touche, Chartered Accountants of Vancouver, British Columbia, was retained by the Company to audit its statutory financial statements for the years under examination. As part of these audits, reports of internal control structure were issued with no material weaknesses noted.

Internal controls were also tested by the Examiners on the line items assigned to them. No material weaknesses were found.

In addition, the parent company has its own Internal Audit Department that performs audits of the Company and provides recommendations to management on internal controls and operational procedures.

WELFARE & PENSION PLANS

The Company provides its employees and their eligible dependents with medical benefits through British Columbia Medical Services Plan. Dental benefits are also provided through the IAL Group policy of the parent company. Other benefits include group term life insurance, long-term disability and AD&D insurance.

The Company has an Executive Incentive Program for its Vice Presidents. The amount of incentives are based on meeting goals set by the Company in a given year.

The Company sponsors and administers a contributory defined benefits pension plan for its employees. Employees contribute 3.5% of salary and the Company contributes amounts to cover cost of the plan services. At the time of our examination, no actuarial opinion on the pension plan was available and was not disclosed in the Notes to Financial Statements as required by the NAIC Annual Statement Instructions.

TERRITORY AND PLAN OF OPERATIONS

As of December 31, 1997, the Company is authorized to transact business in twenty two (22) states as follows: Arizona, California, Colorado, Florida, Hawaii, Idaho, Illinois, Iowa, Louisiana, Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Texas, Utah, Washington and Wyoming. The Company's Certificates of Authority in all 22 states were verified and no exceptions were found.

The Company primarily markets universal life, whole life, term life, and single premium immediate and deferred annuity products. In 1994, the Company introduced a final expense/funeral expense product to the U.S. market targeted at low to middle income seniors aged 55 to 75 called the Legacy Plan policy.

The Company planned to expand its territory of operation in fourteen (14) more states as follows: Delaware, Georgia, Indiana, Kentucky, Maryland, Minnesota, Mississippi, North Carolina, Ohio, Pennsylvania, South Carolina, Virginia, West Virginia and Wisconsin. The Company planned to obtain licenses in six of the above states in 1999.

GROWTH OF THE COMPANY

The growth of the Company is reflected in the following schedules:

Schedule 1 (000s) omitted

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Excess of Assets over Liabilities</u>
1997*	260,538	231,224	29,314
1996	262,839	237,412	25,427
1995	268,399	245,912	22,487
1994	270,398	251,221	19,177
1993	264,413	247,098	17,315

Schedule 2 (000s) omitted

<u>Year</u>	<u>Net Premium Written</u>	<u>Net Investment Income</u>	<u>Net Income</u>
1997*	15,545	19,666	3,965
1996	17,928	20,308	2,815
1995	12,779	20,859	2,513
1994	21,217	19,587	987
1993	19,718	18,662	207

*** As Adjusted by Examination**

REINSURANCE

The Company has in effect various reinsurance agreements covering the United States business as described below:

Assumed Reinsurance

The Company has coinsurance and yearly renewable term agreements (YRT) with North West Life Assurance Company of America (NWA). It assumed universal life policies effective January 1987 through September 30, 1990 for new issues and renewal business.

The Company has a yearly renewable term agreement with Protective Life Insurance Company consisting of two small policies at December 31, 1997.

Ceded Reinsurance

Effective December 31, 1990, the Company and NWA signed a coinsurance agreement which transferred approximately \$9 million of assets and obligations from the Company's U.S. line of business to NWA. Essentially, the Company transferred to NWA the U.S. individual flexible premium deferred annuities business known as "Five Star Plus-1983" to the extent of its loaned portion. NWA holds the reserves for these policies. As of December 31, 1997, these reserves totaled \$8,648,746.

The Company has an annuity coinsurance agreement with Swiss Re Life & Health America Inc., effective December 1984. The Company's main reinsurer (over 90% of ceded by face amount) is Swiss Re Life & Health America, Inc., which now incorporates treaties originally written with Mercantile and General (M&G) and Swiss Re Life Canada.

All the reinsurance treaties contained the insolvency provision pursuant to RCW 48.12.160(3).

ACCOUNTING RECORDS AND SYSTEMS

The accounting records of the Company are maintained both manually and by computer with the general ledger being generated by electronic data processing equipment. The Information System consists of a UNIX operating system on an IBM RS/6000 minicomputer, a Xerox 4050 laser printer, and a PC emulating an IBM Remote Job Entry console. The Wide Area Network includes approximately one hundred (100) network PCs that are connected to the mainframe at the parent company in Quebec via Frame Relay and the Internet via ISDN connection.

Most departments of the Company have access to the mainframe and can enter their own journal entries. The Financial Accounting Department enters its own journal vouchers and occasionally enters those for other departments. The ALIS, a sub-system of the mainframe, and Microdata information are translated daily into the mainframe system to update policyholders files.

Work papers of the Company's independent auditors were available for review and were utilized where possible in the testing and verification of account balances.

SUBSEQUENT EVENTS

In April 1998, the Company sold a small block of mortgages to North West Life Assurance Company of America (NWA) with a total book value of \$1,949,927.

On September 17, 1998, the Company sold its investment in real estate with a book value of \$3,900,000 and the buyer mortgaged it back to the Company for \$3,315,000.

On September 18, 1998, the ultimate parent company, Industrial-Alliance Life Insurance Company, announced that an agreement was made to purchase the Canadian business of Seaboard Life and merge with North West Life Assurance Company of Canada. The deal is expected to close in early 1999 after regulatory approval.

There are no other material transactions or events occurring subsequent to the examination date that we have noted during the course of examination.

NORTH WEST LIFE ASSURANCE COMPANY OF CANADA

FINANCIAL STATEMENTS

DECEMBER 31, 1997

The following financial statements showing the condition of the Company as of December 31, 1996 are included in this report:

- Balance Sheet
- Summary of Operations
- Capital and Surplus Account
- Comparative Balance Sheet
- Comparative Summary of Operations
- Reconciliation of Capital and Surplus

NORTH WEST LIFE ASSURANCE CO. OF CANADA

BALANCE SHEET
AS OF DECEMBER 31, 1997

	BALANCE PER COMPANY	Notes	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION	Comments
ASSETS					
Bonds	\$ 83,393,216	(1)	\$ (300,000)	\$ 83,093,216	A
Mortgage Loans on Real Estate	153,168,167	(2)	(99,072)	153,069,095	C
Real Estate:					
Properties Acquired in Satisfaction of Debt	253,000			253,000	D
Investment in Real Estate	3,900,000			3,900,000	
Policy Loans	10,956,800		-	10,956,800	E
Cash on hand and on deposit & Short Term Investments	5,025,257		-	5,025,257	
Life Premiums & Annuity Considerations deferred & unc.	1,043,480		-	1,043,480	
Investment Income due and accrued	2,797,591		-	2,797,591	
Total Assets	\$ 260,537,511		\$ (399,072)	\$ 260,138,439	
LIABILITIES					
Aggregate reserve for life policies & contracts	\$ 206,389,664		\$ -	\$ 206,389,664	H
Policy and contract claims:					
Life	759,139			759,139	
Liability for premium and other deposit funds:					
Policyholder premiums	308,704			308,704	
Other Contract Deposit Funds	7,496			7,496	
Policy and contract liabilities not included elsewhere:					
Surrender Values on Cancelled Policies	44,625		-	44,625	
Commissions to agents due or accrued	377,269		-	377,269	
General expenses due or accrued	214,812		-	214,812	
Taxes, licenses and fees due or accrued	94,610	(3)	(86,089)	8,521	
Federal Income Taxes due or accrued	272,507		-	272,507	
Amounts held for Agents' account	399,626		-	399,626	
Remittances and items not allocated	320,525		-	320,525	
Asset Valuation Reserve	1,587,505	(4)	(27,383)	1,560,122	
Payable to parent, subsidiaries and affiliates	9,892,522		-	9,892,522	
Aggregate Write-ins for liabilities	10,554,762		-	10,554,762	
Total Liabilities	\$ 231,223,766		\$ (113,472)	\$ 231,110,294	
CAPITAL AND SURPLUS					
Excess Assets over Liabilities & Special Surplus	\$ 28,113,745		\$ -	\$ 28,113,745	
Reserve for AIDS	1,200,000			1,200,000	
Net Examination Adjustment	-		(285,600)	(285,600)	
Total Capital and Surplus	\$ 29,313,745		\$ (285,600)	\$ 29,028,145	
Total Liabilities, Capital and Surplus	\$ 260,537,511		\$ (399,072)	\$ 260,138,439	

NORTH WEST LIFE ASSURANCE CO. OF CANADA

SUMMARY OF OPERATIONS FOR YEAR ENDED DECEMBER 31, 1997

	BALANCE PER COMPANY	Notes	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION
Premiums and annuity considerations	\$ 15,545,166		\$ -	\$ 15,545,166
Net Investment Income	19,665,673		-	19,665,673
Amortization of Interest Maintenance Reserve	(292,952)		-	(292,952)
Commissions and expense allowances on reinsurance	106,000		-	106,000
Aggregate write-ins for miscellaneous income	<u>196,536</u>		<u>-</u>	<u>196,536</u>
Total Income	\$ 35,220,423		\$ -	\$ 35,220,423
Death Benefits	1,535,758		\$ -	\$ 1,535,758
Matured Endowments	1,268		-	1,268
Annuity Benefits	25,459,658		-	25,459,658
Surrender benefits and other fund withdrawals	1,710,949		-	1,710,949
Interest on policy and contract funds	20,613		-	20,613
Increase in aggregate reserves for life and A&H policies	(7,047,239)		-	(7,047,239)
Commissions on premiums and annuity considerations	3,032,363		-	3,032,363
Commissions & Expense Allowance on Reinsurance Assumed	6,664		-	6,664
General insurance expenses	3,758,204		-	3,758,204
Insurance taxes, licenses and fees	407,064	(3)	(86,089)	320,975
Aggregate write-ins for deductions	<u>1,174,566</u>		<u>-</u>	<u>1,174,566</u>
Total Benefits and Expenses	\$ 30,059,868		\$ (86,089)	\$ 29,973,779
Net Gain from Operations before dividends to policyholders	\$ 5,160,555		\$ 86,089	\$ 5,246,644
Dividends to Policyholders	<u>-</u>		<u>-</u>	<u>-</u>
Net gain from operations before federal income taxes	\$ 5,160,555			\$ 5,246,644
Federal Income Taxes	<u>1,143,615</u>		<u>-</u>	<u>1,143,615</u>
Net gain from operations before realized capital gains	\$ 4,016,940			\$ 4,103,029
Net Realized capital gains less capital gains tax	<u>(52,332)</u>		<u>-</u>	<u>(52,332)</u>
NET INCOME	\$ 3,964,608		\$ 86,089	\$ 4,050,697
CAPITAL AND SURPLUS ACCOUNT				
Capital and surplus, December 31, previous year	<u>\$ 25,426,918</u>		<u>\$ -</u>	<u>\$ 25,426,918</u>
Net income	3,964,608	(3)	86,089	4,050,697
Change in unrealized capital gains or (losses)	(373,990)	(1&2)	(399,072)	(773,062)
Change in non-admitted assets	608,253		-	608,253
Change in Asset Valuation Reserve	(286,571)	(4)	27,383	(259,188)
Amount of Currency Translation	<u>(25,473)</u>		<u>-</u>	<u>(25,473)</u>
Net change in capital and surplus for the year	\$ 3,886,827		\$ (285,600)	\$ 3,601,227
Capital and surplus, December 31, current year	\$ 29,313,745		\$ (285,600)	\$ 29,028,145

NORTH WEST LIFE ASSURANCE CO. OF CANADA

Examination as of December 31, 1997

COMPARATIVE BALANCE SHEET

<u>ASSETS</u>	<u>1 9 9 7 *</u>	<u>1 9 9 6</u>
Bonds	\$ 83,093,216	\$ 83,923,071
Mortgage Loans on Real Estate	153,069,095	156,864,627
Real Estate:		
Properties Acquired in Satisfaction of Debt	253,000	5,060,105
Investment in Real Estate	3,900,000	-
Policy Loans	10,956,800	10,782,098
Cash on hand and on deposit & Short Term Investment	5,025,257	2,702,465
Life premiums & annuity considerations deferred & unc.	1,043,480	925,569
Investment Income due and accrued	2,797,591	2,580,902
Total Assets	<u>\$ 260,138,439</u>	<u>\$ 262,838,837</u>
<u>LIABILITIES</u>		
Aggregate reserve for life policies and contracts	\$ 206,389,664	\$ 213,436,903
Policy and Contract Claims:		
Life	759,139	1,201,290
Liability for premium and other deposit funds:		
Policyholder Premiums	308,704	435,059
Other Contract Deposit Funds	7,496	7,578
Policy and contract liabilities not included elsewhere:		
Surrender Values on Cancelled Policies	44,625	328,160
Commissions to agents due or accrued	377,269	424,315
General expenses due or accrued	214,812	226,031
Taxes, licenses and fees, excluding federal income taxes	8,521	49,995
Federal Income Taxes due and accrued	272,507	1,478,581
Amounts held for Agent's account	399,626	378,025
Remittances and items not allocated	320,525	321,932
Asset Valuation Reserve	1,560,122	1,300,934
Payable to parent, subsidiaries and affiliates	9,892,522	6,727,062
Aggregate Write-ins for Liabilities	10,554,762	11,096,054
Total Liabilities	<u>\$ 231,110,294</u>	<u>\$ 237,411,919</u>
<u>CAPITAL AND SURPLUS</u>		
Excess Assets over Liabilities & Special Surplus	\$ 28,113,745	\$ 24,226,918
Reserve for AIDS	1,200,000	1,200,000
Net Examination adjustment	(285,600)	-
Total Capital and Surplus	<u>\$ 29,028,145</u>	<u>\$ 25,426,918</u>
Total Liabilities, Capital and Surplus	<u>\$ 260,138,439</u>	<u>\$ 262,838,837</u>

* As adjusted by examination.

NORTH WEST LIFE ASSURANCE CO. OF CANADA

Examination as of December 31, 1997

COMPARATIVE SUMMARY OF OPERATIONS

	<u>1997 *</u>	<u>1996</u>
Premiums and annuity considerations	\$ 15,545,166	\$ 17,928,294
Net Investment Income	19,665,673	20,308,268
Amortization of Interest Maintenance Reserve	(292,952)	(332,731)
Commissions and expense allowances on reinsurance	106,000	124,418
Aggregate write-ins for miscellaneous income	<u>196,536</u>	<u>167,166</u>
Total Income	<u>\$ 35,220,423</u>	<u>\$ 38,195,415</u>
Death Benefits	1,535,758	1,637,438
Matured Endowments	1,268	3,156
Annuity Benefits	25,459,658	27,727,957
Surrender benefits and other fund withdrawals	1,710,949	1,364,627
Interest on policy and contract funds	20,613	32,109
Increase in aggregate reserves for life and A&H policies	(7,047,239)	(5,381,207)
Commissions on premiums and annuity considerations	3,032,363	3,240,327
Commissions & expense allowance on reinsurance assumed	6,664	7,265
General insurance expenses	3,758,204	3,143,276
Insurance taxes, licenses and fees	320,975	374,742
Aggregate write-ins for deductions	<u>1,174,566</u>	<u>1,196,517</u>
Total Benefits and Expenses	<u>\$ 29,973,779</u>	<u>\$ 33,346,207</u>
Net Gain from Operations before dividends to policyholders	<u>\$ 5,246,644</u>	<u>\$ 4,849,208</u>
Dividends to Policyholders	<u>-</u>	<u>-</u>
Net gain from operations before federal income taxes	<u>\$ 5,246,644</u>	<u>\$ 4,849,208</u>
Federal Income Taxes	<u>1,143,615</u>	<u>2,001,927</u>
Net gain from operations before realized capital gains	<u>\$ 4,103,029</u>	<u>\$ 2,847,281</u>
Net Realized capital gains less capital gains tax	<u>(52,332)</u>	<u>(32,036)</u>
NET INCOME	<u><u>\$ 4,050,697</u></u>	<u><u>\$ 2,815,245</u></u>
<u>CAPITAL AND SURPLUS ACCOUNT</u>		
Capital and surplus, December 31, previous year	<u>\$ 25,426,918</u>	<u>\$ 22,487,419</u>
Net income	\$ 4,050,697	\$ 2,815,245
Change in unrealized capital gains or (losses)	(773,062)	(1,789,662)
Change in non-admitted assets	608,253	753,472
Change in Asset Valuation Reserve	(259,188)	1,021,919
Aggregate write-ins for gains & losses in surplus	<u>(25,473)</u>	<u>138,525</u>
Net change in capital and surplus for the year	<u>\$ 3,601,227</u>	<u>\$ 2,939,499</u>
Capital and surplus, December 31, current year	<u><u>\$ 29,028,145</u></u>	<u><u>\$ 25,426,918</u></u>

* As adjusted by examination

NORTH WEST LIFE ASSURANCE CO. OF CANADA

Examination as of December 31, 1997
RECONCILIATION OF CAPITAL AND SURPLUS

	1997 *	1996	1995	1994	1993
Capital and Surplus, December 31, previous year	<u>\$ 25,426,918</u>	<u>\$ 22,487,419</u>	<u>\$ 19,176,914</u>	<u>\$ 17,315,114</u>	<u>\$ 21,510,358</u>
Net income	\$ 4,050,697	\$ 2,815,245	\$ 2,512,611	\$ 987,417	\$ 207,338
Change in Net Unrealized Gains or (Losses)	(773,062)	(1,789,662)	-	-	-
Change in non-admitted assets	608,253	753,472	634,059	888,454	(3,965,308)
Change in Asset Valuation Reserve	(259,188)	1,021,919	(580,873)	(654,132)	(437,274)
Aggregate write-ins for gains and losses in surplus	(25,473)	138,525	744,708	640,061	-
Paid-in Surplus Contribution	-	-	-	-	-
Dividends to Stockholders	-	-	-	-	-
Net change in capital and surplus	<u>\$ 3,601,227</u>	<u>\$ 2,939,499</u>	<u>\$ 3,310,505</u>	<u>\$ 1,861,800</u>	<u>\$ (4,195,244)</u>
Capital and Surplus, December 31, current year	<u>\$ 29,028,145</u>	<u>\$ 25,426,918</u>	<u>\$ 22,487,419</u>	<u>\$ 19,176,914</u>	<u>\$ 17,315,114</u>

* As adjusted by examination.

NORTH WEST LIFE ASSURANCE CO. OF CANADA

NOTES TO FINANCIAL STATEMENTS

(1) Bonds

The Company holds \$1,000,000 par value in Montgomery Ward Bonds. The Bond is in default and should be valued at the lower of amortized cost or market according to NAIC guidelines. The US portfolio managers told the Company to value the bond at \$65, but the market value is \$35. The adjustment is to reduce the reported value of \$650,000 to the stated market value of \$350,000.

(2) Mortgage Loans on Real Estate

Purchase money mortgages shall be valued in an amount not exceeding the acquisition cost of the real property covered thereby or ninety percent of the fair value of such real property, whichever is lesser. The Company granted a loan at 98% of the fair market value. The examination adjustment is to reduce the book value of the mortgage loan to 90% of the fair value to comply with RCW 48.12.200(1).

(3) Taxes, Licenses & Fees Due or Accrued

It was noted in our examination of premium taxes that the Company overstated its provisions for premium taxes. The examination adjustment is to reduce the premium tax provision.

(4) Asset Valuation Reserves

The AVR was recalculated using the adjusted balances of Bonds and Mortgage Loans. The result is an overstatement and an examination adjustment was made to reduce the liability related to the adjustments in Bonds and Mortgages.

NORTH WEST LIFE ASSURANCE CO. OF CANADA

COMMENTS ON FINANCIAL STATEMENTS

A. Bonds \$83,093,216

The Company's investment in bonds represented 32% of its total admitted assets as of December 31, 1997. All bonds were owned by the Company and were valued in accordance with the procedures prescribed by the NAIC Valuations of Securities manual.

B. Mortgage Loans on Real Estate \$153,168,167

The Company's investment in mortgage loans represented 58.8% of its total admitted assets as of December 31, 1997.

C. Policy Loans \$10,956,800

Policy loans are reported at their unpaid balances and consist of the following:

Traditional whole life policy loans	\$ 2,112,189
Policy loans - Annuities	17,333,119
Policy loans -NWA coinsurance	<u>(8,488,508)</u>
Total	<u>\$10,956,800</u>

D. Life Premiums Deferred & Uncollected \$1,043,480

The purpose of this asset account is to offset the uncollected valuation net premium assumed uncollected in the calculation of policy reserves. The Company provided summary workpapers to support the amount reported in the Annual Statement. No discrepancies were found. However, the calculation were not verified by the Actuary of the Office of the Insurance Commissioner, State of Washington.

**NORTH WEST LIFE ASSURANCE COMPANY
OF CANADA**

E.	Aggregate Reserve for Life Policies & Contracts	\$206,389,664
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Excluded from this line item is the annuity reserve taken of \$8,648,746, for the loaned portion of the Flexible Premium Deferred Annuity reinsured to NWA. Each component of the reserve reported on Exhibit 8 was traced to the summary pages of the workpapers provided by the Company. The total of the summaries reconciled with the amount reported in the Annual Statement. However, the calculation of the reserves were not verified by the Actuary of the Office of the Insurance Commissioner of the State of Washington.

F.	Aggregate Write-ins for Liabilities	\$10,554,762
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Included in this liability is a subordinated note with its parent company, Industrial Alliance, issued on October 29, 1993 and is due October 29, 2003 for \$10,000,000 (Canadian dollar) and valued at \$7,017,544 (US dollar) as of December 31, 1997.

G.	Excess Assets over Liabilities and Special Surplus	\$28,113,745
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The Company was incorporated in Canada and all capital stock, contributed surplus and retained earnings are reflected in its 1997 Annual Return, OSF154, which includes both Canadian and United States business. Our examination covered only the U.S. business which was segregated on the Company's books and records and reported in its United States business' Annual Statement. Instead of reporting capital and surplus, the Company reported "Excess Assets over Liabilities & Special Surplus" on its Annual Statement. Under RCW 48.05.090, an Alien insurer is required to maintain within the United States, assets in an amount not less than its outstanding liabilities arising out of its insurance transactions in the United States. If the Company was incorporated under the laws of the State of Washington, it would have been in compliance with the minimum capital and surplus requirements under RCW 48.05.340 which is \$4,800,000 for this kind of insurance company.

**NORTH WEST LIFE ASSURANCE COMPANY
OF CANADA**

ACKNOWLEDGMENT

The cooperation and assistance of the officers and employees of the Company during the examination are hereby acknowledged.

In addition, Francisco S. Ebreo, AFE, FLMI, Insurance Examiner, John Jacobson, AFE, Insurance Examiner/EDP Specialist, and Alicia Hooper, Insurance Examiner, all from the Office of Insurance Commissioner, State of Washington, participated in the examination and preparation of this report.

AFFIDAVIT OF EXAMINER IN CHARGE